STATE OF CALIFORNIA | Public Utilities Commission
San Francisco

M e m o r a n d u m

Date: May 16, 2003

To: The Commission
(Meeting of May 22, 2003)

From: Carlos Machado
Office of Governmental Affairs (OGA) — Sacramento

Subject: **AB 1685 (Leno) Energy: self generation incentive program.**
As amended May 13, 2003

Legislative Subcommittee Recommendation: Support, if amended.

Summary: This bill would require the Commission in consultation with the Energy Commission (CEC) to administer the current self-generation incentive program without modification until January 1, 2008.

Digest: Existing law, Chapter 329, Statutes of 2000 (AB 970, Ducheny, et. al.), required the Commission, in consultation with the ISO and the CEC, to "adopt energy conservation demand-side management and other initiatives in order to reduce demand for electricity and reduce load during peak demand periods" (Public Utilities Code §379.5 (b), formerly §399.15 (b)), including providing for:

- Incentives for load control and distributed generation to be paid for enhancing reliability.
- Differential incentives for renewable or super clean distributed generation resources.

Pursuant to this statute, the Commission implemented distributed generation incentives in its Decision (D.) 01-03-073, in Rulemaking (R.) 98-07-037, by creating the Self Generation Incentive Program (program). In this decision, the Commission also authorized funding for the program from the utilities' distribution revenue requirement in the amount of $125 million annually through the end of 2004. The program was officially launched on June 29, 2001, and later modified by the Commission on February 7, 2002 in D.02-02-026.

This bill would require the Commission, in consultation with the CEC, to administer a self generation incentive program through January 1, 2008. It would also require the Commission to administer the program in the same form as exists on January 1, 2004.

The Commission's decisions require the program to be administered by Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and Southern California Gas (SoCal) in their respective service territories. In the San Diego Gas & Electric (SDG&E) service territory, the San Diego Regional Energy Office (SDREO) administers the program. As the administrator of the program, each utility is responsible for handling customer program questions and applications, and providing information regarding the program.

The program provides varying levels of financial incentives to customers based upon the technology type and size of generation they have installed on their side of the utility meter. Customers who have installed photovoltaic solar generation (other types of solar generation technology are not eligible under the program), with a generation capacity greater than 30 kilowatts and less than 1.5 megawatts, qualify for an incentive level that provides the highest level of financial incentive available in the program. The incentive is provided to the customer as a one-time payment, calculated in one of two methods. Currently, the program pays customers who install eligible solar generation the lesser amount calculated from either of the two following formulas:

- The unit's maximum generating capacity (up to 1 megawatt) multiplied by the program's per watt incentive rate, currently set at $4.50 per watt.

- The unit's total eligible project costs multiplied by the program's incentive percentage, currently set at 50 percent.

Pursuant to D.01-03-073, the entities administering the program are "required to perform program evaluations and load impact studies to verify energy production and system peak demand reduction". Specifically, the decision calls upon administrators to report back to the Commission at the end of each program year on the program's peak operation. By the end of the program's second year, this decision also calls for recommendations to be presented to the Commission on "incentive or program designs that could improve on-peak load reduction from self-generation." The administrators are also "required to conduct an independent analysis of the relative effectiveness of the utility [PG&E, SCE, SoCal] and non-utility [SDREO] administrative approaches" adopted by the Commission.

In requiring these evaluations, the Commission states in D.01-03-073 that the purpose of the information collected "is to assist us in identifying potential improvements in program design and incentive mechanisms for self-generation programs in the future."

In D.01-03-073, the Commission approved the program and its budget through December 31, 2004.

Analysis: The bill's requirement that the Commission administer the program through January 1, 2008 would appear to sunset the self generation incentives program. Although the bill would extend the program to a time-certain, current law would appear to already extend the Commission's authority for the program indefinitely. It is unclear what purpose this provision would serve. Should this bill be enacted, further legislative action would be required prior to January 1, 2008 in order for the solar incentives to be available after that date.

Moreover, the bill would inhibit the Commission from modifying the program in such a way as to improve its effectiveness. By requiring the Commission to administer the program <u>in the same form</u> as it exists on January 1, 2004, this bill may have the effect of limiting, or prohibiting altogether, the Commission's ability to make changes that may improve its effectiveness.

The Commission required an evaluation of the program when it was implemented in D.01-03-073. The purpose of the information from the evaluations was to identify "potential improvements in the program design and incentives mechanisms for self-generation programs in the future."

RECOMMENDED AMENDMENTS

As indicated above, the bill should not prevent the commission from improving the self generation incentives program, based on the current or future evaluations or other information available to the Commission. Moreover, the current statute does not provide for a sunset date to the program, and AB 1685 should not include the sunset date. Therefore, the bill should be amended as follows (page 2, lines 24-28):

379.6. The commission, in consultation with the State Energy Resources Conservation and Development Commission, shall ~~until January 1, 2008,~~ <u>continue to</u> administer a self generation incentive program in <u>substantially similar</u> ~~the same~~ form as exists on January 1, 2004 <u>with appropriate modifications as determined by the commission</u>.

LEGISLATIVE HISTORY

Assembly U&C: 11-0 (do pass as amended) (4/21/03)

SUPPORT/OPPOSITION

<u>Support</u>: Shell Solar Industries, Light Energy Systems, POCO Solar Energy, Six Rivers Solar, SoCal Solar Energy, Performance Solar Inc., AMECO, EcoEnergies.

<u>Opposition</u>: None reported.

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Date: May 16, 2003

BILL LANGUAGE:

BILL NUMBER: AB 1685 AMENDED
BILL TEXT

AMENDED IN ASSEMBLY MAY 13, 2003
AMENDED IN ASSEMBLY APRIL 24, 2003
AMENDED IN ASSEMBLY APRIL 10, 2003

INTRODUCED BY Assembly Member Leno
(Coauthors: Assembly Members Hancock, Jackson, and Koretz)

FEBRUARY 21, 2003

An act to add Section 379.6 to the Public Utilities Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

AB 1685, as amended, Leno. Energy: self generation incentive program.

Existing law requires the Public Utilities Commission (PUC), in consultation with the Independent System Operator and the State Energy Resources Conservation and Development Commission (Energy Commission), to adopt initiatives, on or before March 7, 2001, to reduce demand for electricity and reduce load during peak demand periods, including differential incentives for renewable or superclean distributed generation resources. Pursuant to this requirement, the PUC has developed a Self Generation Incentive Program to encourage customers of electrical corporations to install distributed generation that operates on renewable fuel or contributes to system reliability.

This bill would require the PUC, in consultation with the Energy Commission, to administer a self generation incentive program for solar electricity generation until January 1, ~~2006~~ *2008*, in the form that exists on January 1, 2004.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares each of the following:

(a) Increasing California's reliance on renewable energy resources, particularly solar electricity generation, promotes stable electricity prices, protects public health, improves environmental quality, stimulates sustainable economic development, creates new employment opportunities, and reduces reliance on imported fuels.

(b) The development of renewable energy resources, particularly nonpolluting solar electricity generation, ameliorates air quality problems throughout the state and improves public health by reducing the burning of fossil fuels and the associated environmental impacts.

(c) The Self Generation Incentive Program administered by the Public Utilities Commission and established pursuant to Section 379.5

(Decision 01-03-073, March 27, 2001), has been a critically important subsidy for the growth of solar electricity generation in California, but is set to expire at the end of 2004.

(d) The Legislature intends that the commission continue the Self Generation Incentive Program ~~in order to subsidize solar electricity generation~~ .

SEC. 2. Section 379.6 is added to the Public Utilities Code, to read:

379.6. The commission, in consultation with the State Energy Resources Conservation and Development Commission, shall until January 1, ~~2006~~ *2008* , administer a self generation incentive program ~~for solar electricity generation~~ in the same form as exists on January 1, 2004.